51. On 6/16/03, Dell filed its 1stQ F04 10-Q Report with the SEC. It was signed by Davis. The 10-Q reported the same financial results earlier reported. It also stated:

First Quarter Overview

During the first quarter of fiscal 2004, Dell's performance ***once again significantly exceeded the industry*** . . . .

. . . During the first quarter of fiscal 2004, Dell leveraged its low-cost structure and efficient direct-to-customer model to aggressively price and pass through declining component prices and structural savings . . . . Gross margins increased from the first quarter of fiscal year 2003 as a result of Dell's cost reduction initiatives and component cost declines. Dell's continued focus on cost control also resulted in record-low operating expenses during the first quarter as a percentage of net revenue. . . . [T]he Dell model excels in any macro-economic environment . . . .

Gross Margin

Gross margin as a percentage ***of net revenue increased from 17.2% in the first quarter of fiscal 2003 to 18.3% in the first quarter of fiscal 2004 . . . . The year-over-year improvement in gross margin occurred primarily as a result of Dell's cost savings initiatives and declining component costs. As part of its focus on improving margins, Dell remains committed to reducing costs to maintain price leadership and improve profitability through four primary cost reduction initiatives: manufacturing costs, warranty costs . . . and overhead or operating expenses.***

. . . ***[T]he strength of Dell's direct-to-customer business model . . . makes Dell better positioned than its competitors to profitably grow market share in any business climate.***

Operating Expenses

The following table presents certain information regarding Dell's operating expenses during the periods indicated:

	Three Months Ended (dollars in millions)			
	5/2/03		5/3/02	
	Dollars	% of Net Revenue	Dollars	% of Net Revenue
Total operating expenses	$937	9.8%	$801	9.9%

Total operating expenses decreased as a percentage of revenue in the first quarter of fiscal 2004 as compared to the first quarter of fiscal 2003,

primarily as a result of the previously referred to cost savings initiatives, including providing certain customer technical support . . . functions from low-cost sites . . . .

52. Dell's 1stQ F04 10-Q also contained the Sarbanes-Oxley certifications signed by Schneider and M. Dell, detailed at ¶¶269-273.

53. On 8/14/03, Dell reported ***record*** financial results for the 2ndQ F04 via a release, stating:

Dell's Superior Execution Produces Record Shipments, Revenue and Operating Income . . .

Continued strong growth . . . ***helped*** Dell achieve ***best-ever quarterly results in the period ended Aug. 1*** . . . .

* * *

Second-quarter revenue was $9.8 billion, up 16 percent from the same period one year ago. ***Per-share earnings were 24 cents, an increase of 26 percent***.

	2nd Quarter			Year to Date		
	FY '04	FY '03	Change	FY '04	FY '03	Change
			(in millions)			
Revenue	$9,778	$8,459	16%	$19,310	$16,525	17%
Operating Income	$840	$677	24%	$1,651	$1,267	30%
Net Income	$621	$501	24%	$1,219	$958	27%
EPS	$.24	$.19	26%	$.47	$.36	31%

* * *

Second quarter operating expenses were a record-low 9.6 percent of revenue, down from 9.8 in the first quarter and 9.9 percent a year ago. Operating profit as a percent of revenue increased to 8.6 percent – the company's highest in nearly three years and up from 8.0 percent in last year's second quarter.

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Respondents to a recent survey ***by*** a leading Japanese information-technology publication ***ranked Dell No. 1 in customer satisfaction*** for standards-based servers for the fifth consecutive year.

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> Product Leadership Earns Continued Recognition
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> Third-party opinions underscored Dell's strength with customers in enterprise product categories. Technology Business Research (TBR) ***ranked Dell No. 1 in service and support for standards-based servers for eight consecutive quarters.***

54. On 8/14/03, Dell held a conference call with analysts, money managers and institutional investors to discuss its business and its 2ndQ F04 results. During the call, the following occurred:

> [**Schneider – SVP, CFO:**] Dell has consistently outperformed the market in all competitive environments and continued to do so in the second quarter. Specifically, our year-over-year revenue, unit, and earnings growth continue to outpace the market. While we estimate that industry revenues were flat year-over-year, Dell revenues grew by 16%. . . . ***And we delivered improved profitability as operating income dollars continue to grow faster than revenues. We delivered 24 cents in earnings per share, up 26% year-over-year, a $9.8 billion in revenues. . . . [W]e achieved an expense ratio of 9.6%, the lowest in company history. Operating income margins increased 10 basis points sequentially and 60 basis points year-over-year to 8.6%, despite challenging market conditions. . . . [O]ur products were recognized by industry experts for their quality and performance.***
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> [**Rollins – President, COO:**] First, the nature, magnitude and sustainability of Dell's cost advantage. Second, the consistently high quality earnings and industry leading returns generated by our business model and focus strategy. . . . Starting with our cost advantage. Traditionally, our cost advantage has been driven by our ability to rapidly pass along component cost declines to customers and maintain lean inventory levels . . . [and by] manufacturing efficiency, and a very lean operating cost structure. These cost advantages are structural, inherent to our model, and accrue uniquely to Dell. . . . ***Though our advantage is significant across all product categories and in all market environments, and we will continue to widen the gap with our competitors, we have removed over $3 billion from our cost structure over the past two years and are on track to remove about $1.5 billion in cost this year and have identified additional cost savings to take us well into the future. The second topic is the consistently high quality of earnings and industry leading returns generated by Dell's business model and focused strategy.***
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> * * *

> **[M. Dell – Chairman, CEO:]** [W]e continue to demonstrate a focus model that is structurally advantaged and drive[s] leading financial operating performance and . . . yields leading shareholder value creation. . . . ***And all of this gives us great confidence that we remain on track to achieve our goal of $60 billion in revenue.***

55. On 8/15/03, JP Morgan issued a report on Dell, based on the recent conference call, which stated:

- Dell delivered in line earnings and revenues of $0.24 and $9.78 billion.

* * *

> ***The company is resoundingly confident about its market strategy in PCs and servers, and Dell also continues to trumpet its sterling cost structure advantage.***

56. On 8/18/03, Neeham issued a report on Dell, based on the recent conference call, which stated:

- . . . ***Dell reported another picture perfect quarter*** . . . .
- ***Dell's . . . operating margin ticked up from 8.5% to 8.6% thanks to continued exceptional expense controls. . . . [O]perating income rose 22.1%, demonstrating the efficiency of the Dell model.***

57. On 9/2/03, Dell issued a release representing the high quality of its products and the high customer satisfaction Dell was enjoying, due to the Dell Direct model:

> A commitment to high customer satisfaction and providing customers with the greatest value has enabled Dell to extend its lead as the world's No. 1 provider of personal computer systems . . . .
>
> * * *
>
> "***We continue to provide our customers with the highest quality products*** . . . ," Kevin Rollins, Dell president and chief operating officer, said . . . .

58. On 10/8/03, Dell held a conference call with analysts, money managers and institutional investors to discuss its business. On 10/9/03, UBS issued a report on Dell based on the recent conference call, which stated:

> Yesterday, Dell hosted its Strategy Update conference call w/COO Kevin Rollins . . . . ***Dell also reaffirmed that it can expand its operating margins to***

10% (from 8.5% currently) and was even ahead of plan . . . . Dell believes that there are four areas for cost reductions . . . [including] lower warranty costs . . . improving call center efficiency, and lowering fixed costs and . . . structural cost improvements . . . .

59. The positive statements made by defendants regarding Dell during 2/03-10/03, detailed above, inflated Dell's stock to a high of $37.18 on 10/21/03 from $22.82 on 2/13/03 – an increase of 63%, or $36 billion in market capitalization. As Dell's stock soared to these artificially inflated levels, it restored the value of Dell's top executives' stock options as they went "***in the money***." Dell insiders then began to unload their stock to profit from their "pump-and-dump" scheme. Between 2/28/03 and 9/22/03, they sold off nearly 39 million shares of their Dell stock for $1.16 billion in illegal insider trading proceeds.

60. The statements made between 2/03-10/03 included:

- Dell was reporting "***record***" and "***industry-leading***" financial results, including "high-quality" earnings and operating income, and operating profit margins, while achieving lower operating expenses as a percentage of revenue.

- Dell's "***record***" financial results and "***exceptional financial performance***" were a "***testament to the strengths of [Dell's] direct model***" and "***speak[] volumes [as to Dell's] model***" which "***consistently deliver[s] exceptional financial and operating performance***" in "***any macro-economic environment***" and "***in any business climate***."

- Dell's "***business model [was] structurally advantaged,***" resulting in ***customers trusting Dell*** due to their "***exceptional customer experience***," making Dell "***No. 1 in customer satisfaction***" and "***service and support***" due to Dell's "***highest quality products," which were "recognized . . . for quality and performance***" – "***helping expand [Dell's] competitive advantages***," which would "***sustain superior operating results for the long term***."

- Dell's outstanding financial results were due to "***record low***" operating expenses "***due to Dell's cost savings initiatives***," including reduced "***manufacturing costs***" and "***declining component costs,***" as well as "***providing customer support functions from low cost sites.***" Dell had eliminated $1.2 billion in annual costs, and was ***targeting "$3 billion more in cost reductions***," which cost savings were from "***sustainable activities.***" But "***lower cost doesn't mean there are quality trade-offs,***" meaning Dell was producing "***high quality products***" that were "***easy to buy***," together with "***superior service and support.***"

- Dell's top officers had reviewed Dell's internal financial and accounting and disclosure controls; those controls were effective to assure accurate preparation of Dell's SEC filings and that no undisclosed deficiencies in Dell's internal controls or fraud – material or otherwise – existed at Dell.

These statements impacted and were reflected in the market trading price of Dell's stock and other publicly traded securities. The statements set forth in ¶¶34-60 were false and misleading when made. The true facts, which were known to or recklessly disregarded by each of the Dell Defendants, but not disclosed by them, were:

(a) The Dell Direct business model was not operating successfully or creating the strong, often record, financial results and operating margins Dell was reporting; in fact, due to overly aggressive cost-cutting in Dell's customer support and service and manufacturing operations, Dell's business model was being afflicted with sky-rocketing customer dissatisfaction and complaints, as well as increasing product quality problems (especially with laptop batteries and capacitors). In truth, Dell's financial results were being falsified and temporarily inflated by (i) large cost-cuts which would have to be reversed and remediated; (ii) improper accounting tricks, including under-accruing warranty costs and failing to take timely write-downs for defective products and product replacement; and (iii) its secret receipt of some $200 million per quarter in rebate/kickback payments from Intel in return for exclusively purchasing Intel microprocessors/chips.

(b) Dell was not manufacturing or selling the highest quality products, as Dell's aggressive cost-cutting in its manufacturing operations to boost its reported profits in the short term had badly weakened Dell's quality control procedures and standards for component parts, *i.e.*, batteries and finished goods, such that Dell was encountering an upsurge in customer complaints due to faulty products, including capacitor failures, motherboard failures and widespread laptop (lithium) battery defects.

(c) Dell did not have an unrivaled ability to create products or technologies that met or exceeded customer expectations, nor did it have world-class manufacturing excellence, producing high-quality products. In fact, as a result of the aggressive cost cuts in Dell's manufacturing operations, Dell's quality assurance procedures had become badly impaired, leading to a marked decline in product quality.

(d) Dell's cost-cutting program was resulting in a marked increase in the production of defective products which did not meet Dell's historic quality standards and a marked decline in Dell's historic levels of customer support and service and thus customer satisfaction, which Dell insiders knew would cost hundreds of millions, if not billions, of dollars to remedy, including the hiring of thousands of additional full-time employees to be trained to staff customer call centers and to improve Dell's quality assurance techniques and practices in its manufacturing operations.

(e) In order to cut operating costs, Dell had sharply curtailed its quality control processes by no longer testing component parts (specifically batteries, hard drives, optical drives or motherboards and laptop accessory parts, including power adaptors) received from suppliers. Rather, Dell was relying on post-assembly quick tests of completed units to discover defective component parts. In addition, it had also curtailed the post-assembly "burn-in" testing of units, which steps in combination were resulting in Dell shipping much larger numbers of computers with defects and performance problems, leading to increased quality problems and customer dissatisfaction.

(f) Dell was not providing superior customer service and support as, due to overly aggressive cost-cutting activities in Dell's customer support and service operations to boost its reported profits in the short term, including moving most of Dell's consumer and small business customer support and service call centers to India and the Philippines and replacing full-

time, well-trained employees with part-time, ill-trained (but cheaper) employees, Dell's customer support and service operations were badly impaired, resulting in very long wait times and an inability to adequately respond to customer complaints and questions, generating an upsurge in customer anger and dissatisfaction with Dell, its products and its customer support and service, which Dell's internal metrics showed would hurt sales.

(g) Because of its shifting of much of its customer support and service operations, especially for its consumer and small business customers, to "call centers" in India and the Philippines and staffing its call centers with part-time, poorly trained employees, Dell was no longer providing a superior customer experience or generating high degrees of (or improving) customer satisfaction. Rather, Dell was encountering a widespread customer revolt with a massive upsurge in complaints regarding declining product quality and declining service and support operations and a sharp decline in one of Dell's key internal metrics – the "likely to repurchase" number.

(h) The Dell Direct model also was not functioning effectively with respect to Dell's direct sales process because Dell had flooded the market with a huge number of confusing and contradictory promotional offers which its now ill-trained and inadequate sales force was unable to effectively process. This was leading to refusals to honor many "coupons" and "promotions," resulting in customer dissatisfaction and refusal to buy Dell products, which was showing up in an important internal Dell metric known as the "likely to repurchase" number, where Dell was seeing soaring negative sentiment which meant customers were displeased with the Dell sales process and thus Dell's sales growth would decline.

(i) While Dell publicly disseminated favorable surveys and reports purporting to show high degrees of Dell customer satisfaction with product quality and service and support, in fact, its own internal surveys, information and customer metrics (which it constantly

monitored) showed a huge upsurge in customer dissatisfaction with and anger at Dell, including a measurable increase in negative responses to its most important metric, the so-called "likely to repurchase" number, which Dell knew indicated serious problems with ongoing sales growth.

(j) Dell had quietly curtailed the length of its product warranty and sharply curtailed the breadth of its warranty coverage (it had eliminated the computer operating system from its warranty) and, in addition, had secretly adopted a new "fix-on-fail-only" policy whereby it would provide in-home repair service or product replacement only when a computer (or component) completely failed, as opposed to merely malfunctioned, to cut costs. However, these severe restrictions in Dell's warranty and service to its customers – which were much different than Dell's historic "customer friendly" approach to warranty, service and product quality issues – were causing an upsurge in customer dissatisfaction with and anger at Dell, which Dell insiders knew would inevitably result in declining sales growth and a massive increase in warranty and product repair costs to try to restore customers' satisfaction to acceptable levels.

(k) Dell's 4thQ F03 and 1stQ and 2ndQ F04 financial results and statements were artificially inflated and falsified, as detailed in ¶¶233-273, due to a failure to properly accrue required amounts for warranty costs, failure to recognize material product defect/recall costs and failure to properly disclose the existence, nature and extent of the huge rebate payments Dell was receiving each quarter from Intel.

(l) Dell's statements regarding its ability to quickly benefit financially from declines in component part prices was false and misleading. The true reason for Dell's reported superior operating margins was, in large part, the hundreds of millions of dollars of secret and likely illegal rebate/kickback payments Dell was receiving from Intel at the end of each quarter in return for purchasing 100% or virtually 100% of its microprocessor requirements from Intel.

(m) The Dell Direct business model was not advantaged in all environments or business or economic conditions or able to cause Dell to report solid profits and rapid growth regardless of prevailing market conditions due to product quality and customer service and support due to the deficiencies and defects detailed above.

(n) Dell's purported improvements in reducing its operating expenses as a percentage of net revenues and the reported increases in its net and gross operating profit margins to record high levels were only being achieved at the cost of the serious product quality and customer support and service problems outlined above and which the Dell Defendants knew would require massive expenditures to fix, harming Dell's profitability going forward.

61. On 11/13/03, Dell issued a release reporting *record* 3rdQ F04 results:

> **Strong Growth . . . Leads Dell to Record Operating Results in Fiscal Third Quarter; Company Anticipates $11.5 Billion in Revenue, EPS of 28 Cents in Q4**
>
> ***Dell again demonstrated its unique ability to simultaneously deliver . . . leading profitability, achieving record company operating results in the fiscal third quarter.***
>
> * * *
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> For the three months ended Oct. 31, Dell's net revenue was $10.6 billion, 16 percent higher than in the year-ago quarter. . . . sales by the rest of the industry are essentially flat over the same period. ***Third-quarter Dell earnings were 26 cents per share, a 24-percent increase.***

	3rd Quarter			Year to Date		
	FY '04	FY '03	Change	FY '04	FY '03	Change
Revenue	$10,622	$9,144	16%	$29,932	$25,669	17%
Operating Income	$912	$758	20%	$2,563	$2,025	27%
Net Income	$677	$561	21%	$1,896	$1,519	25%
EPS	$.26	$.21	24%	$.72	$.57	26%

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> ***Third-quarter operating expenses were 9.6 percent of revenue, equaling a company record. . . . Dell's operating profit was 8.6 percent of revenue for the***

second straight quarter. In dollar terms, operating income was $912 million, up 20 percent from a year ago.

62. On 11/13/03, Dell held a conference call with analysts, money managers and institutional investors to discuss its 3rdQ F04 results and its business. During the call, the following occurred:

> **[Schneider – CFO]** ***Dell's direct model and realtime information flow enable us to move quickly and precisely in order to deliver outstanding results in any environment; and we did this again in the third quarter. Specifically, our year-over-year revenue, unit, and profit growth continued to outpace the market.*** While industry units were up in the mid-teens we estimate that industry revenues were up only in the single digits year-over-year. ***Meanwhile Dell revenues grew by 16% to $10.6 billion, a new company record. Dell also delivered record operating profit and record earnings for the quarter*** . . . .
>
> . . . ***Dell's quality . . . of earnings continues to lead the market as we turned in yet another quarter of strong revenue and earnings growth.***
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> ***In the third quarter, we delivered 26 cents in earnings per share, an increase of 24% year-over-year*** . . . .
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> * * *
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> **[Rollins – COO]** . . . ***Dell's operating model provides us with information flow advantages that are incremental to our structural cost advantages. Combined, these advantages enable Dell to continue to post solid profits and rapid growth, regardless of the prevailing market conditions. Going forward, continued share gains along with solid progress in attractive growth areas will enable us to achieve and profitably grow beyond our stated target of $60 billion in annual revenues.***
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> * * *
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> **[M. Dell – CEO]** . . . ***[Y]ou can see from our results that our model is structurally advantaged and it's enabling us to consistently deliver exceptional financial and operating performance in all environments. . . . The Dell model is winning, our growth strategy is progressing as planned . . . and [w]e're very well positioned for the future.***

63. On 11/24/03, *The Wall Street Journal* reported that Dell had stopped sending corporate customer service/support calls to its call centers in India:

Dell Inc.: Corporate Support Calls Won't Go to Center in India

Dell Inc., stopped sending U.S. corporate-technical-support calls to its Bangalore, India, call center after commercial customers complained. The Austin, Texas, computer maker said support for U.S. purchasers of its Optiplex desktop and Latitude notebook computers will be handled solely by facilities in Texas, Idaho and Tennessee.

Other products and regions won't be affected. . . . More of Dell's home-computer and consumer-electronics calls will be routed to Bangalore, a spokesman said. The moves won't affect employment in India or the U.S., he said. "***It's a redistribution of tasks and calling queues," he said. "Corporate customers were telling us they didn't like the level of tech support they were getting.***" He couldn't provide specifics. Brooks Gray, a senior analyst at Technology Business Research Inc., said Dell customers cited language problems and delays in reaching senior technicians.

64. On 12/5/03, *Ethnic NewsWatch India Abroad* reported that Dell had assured investors that it was not closing or reducing its work force at the Indian call centers and that this was "***a routine thing and not a big deal***":

Dell says India workforce won't be reduced

* * *

Dell . . . has denied media reports that it is reducing the workforce at its Bangalore center because of customer complaints.

"The company has no plans to close down some of the call centers or reduce workforce in India. Our customers are satisfied with the service they are getting from call centers in India," Barry French, a spokesperson for the Texas-based Dell, said.

French did not deny ***a few*** technical support jobs would be moved back to the U.S. but pointed out that they were changes in the company's process and "routine."

"Periodically, the company makes changes in areas such as customer care. Some of the work being done in one office may be shifted to another office in another country. ***This is a routine thing and not a big deal***," he said.

65. On 12/15/03, Dell filed its 3rdQ F04 Report on Form 10-Q with the SEC. It was signed by Davis. It contained the same financial results earlier reported. It also stated:

Third Quarter Overview

. . . During the third quarter of fiscal 2004, Dell's year-over-year performance continued to outpace the industry. . . . Net revenue increased 16% year-over-year to $10.6 billion during the quarter with operating expenses remaining at a record low 9.6% of net revenue. During the third quarter, Dell continued its focus on maximizing operating dollars by achieving record operating profits and net income of $912 million and $677 million, respectively. . . . ***Dell's low-cost structure and efficient direct-to-customer model have enabled the company to consistently achieve year-over-year market share growth while maximizing operating profitability.***

*　　*　　*

Gross Margin

Gross margin as a percentage of net revenue remained at 18.2% during the third quarter of fiscal 2004 . . . . Gross margin was 18.2% for the nine months ended October 31, 2003 and 17.8% during the same period last year. The year-over-year improvement for the nine months ended October 31, 2003 was primarily driven by Dell's cost savings initiatives. As part of management's focus on improving margins, Dell remains committed to reducing . . . ***manufacturing costs, warranty costs . . . and overhead or operating expenses. These cost savings initiatives also include providing certain customer technical support . . . from cost effective locations*** . . . .

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Operating expenses

The following table presents certain information regarding Dell's operating expenses during the periods indicated:

	Three Months Ended				Nine Months Ended (dollars in millions)			
	10/31/03		11/1/02		10/31/03		11/1/02	
	Dollars	% of Net Revenue	\ Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue
Selling, general and administrative	$905	8.5%	$787	8.6%	$2,553	8.5%	$2,205	8.6%
Research, development and engineering	$118	1.1%	$117	1.3%	$345	1.2%	$338	1.3%
TOTAL operating expenses	$1,023	9.6%	$904	9.9%	$2,898	9.7%	$2,543	9.9%

During the third quarter, Dell maintained ***its record low operating expenses as a percentage of net revenue of 9.6%, compared to 9.9% in the same quarter last year. The decrease was primarily a result of previously referred to cost reduction initiatives.***

66. Dell's 3rdQ F04 10-Q also contained the Sarbanes-Oxley certifications, signed by Schneider and M. Dell, detailed at ¶¶269-273.

67. On 2/12/04, Dell issued a release reporting *record* 4thQ F04 and F04 results:

Dell Posts Record Operating Results in Fiscal Fourth Quarter . . . 18-Percent Revenue Growth, 26-Percent Increase in EPS . . .

Dell's fiscal fourth-quarter 2004 was its best operating period ever. The company achieved record product shipments, revenue, operating and net income, and earnings per share.

* * *

Company revenue for the quarter ended Jan. 30 was $11.5 billion, 18 percent higher than a year ago. ***Net earnings were 29 cents per share, up 26 percent.*** Full-year sales were $41.4 billion, ***operating income was $3.5 billion and per-share earnings were $1.01, all Dell records.***

	4th Quarter			Full Year		
	FY '04	FY '03	Change	FY '04	FY '03	Change
	(in millions, except per share data)					
Revenue	$11,512	$9,735	18%	$41,444	$35,404	17%
Operating Income	$981	$819	20%	$3,544	$2,844	25%
Net Income	$749	$603	24%	$2,645	$2,122	25%
EPS	$.2	$.23	26%	$1.01	$.80	26%

"Dell is alone in simultaneously providing customers great value, growing faster than the industry and earning a compelling profit for investors," said Kevin Rollins, the company's president and chief operating officer. "Doing that requires a high-quality, low-cost business model. We have both."

* * *

Dell's profitability was up strongly from a year ago, both in absolute terms and as a percent of revenue. Fourth-quarter operating income was $981 million, or 8.5 percent of revenue. Operating expenses were 9.6 percent of revenue, matching a company low and down from 9.9 percent in the year-ago quarter.

68. On 2/12/04, Dell held a conference call for analysts, money managers and institutional investors to discuss Dell's business and its F04 results. During the call the following occurred:

[Schneider – CFO and SVP:] ***Our fourth quarter results cap a year of impressive performance in a market where competitors continued to operate without profits.*** . . .

In the fourth quarter we hit our targets again. Marking the twelfth consecutive quarter in which we have met or exceeded our guidance to investors. ***And we generated record . . . revenues, operating income and earnings per share. Looking at our full-year results, we exceeded our plans for the fiscal year '04. . . . With . . . operating income up 25% to $3.5 billion for the full year. All new records. We . . . are well on our way to meeting our goal of $60 billion in annual revenues.***

. . . ***Our model consistently delivers growth that is accretive to shareholder value.***

* * *

Fiscal '04 was an excellent year for Dell. And our financial and operating performance validates that we have the right focus and strategy. As a result, we enter the new year in a stronger competitive position than ever.

. . . Dell's quality and consistency of earnings continued to lead the market. . . . We delivered 29 cents in earnings per share. An increase of 26% year over year . . . .

* * *

[Rollins – President and COO:] . . . I'd like to . . . discuss . . . ***the success of Dell's industry leading business model*** . . . .

* * *

We owner-operate our factories. Driving efficiencies through global scale and proprietary practices that can only be realized by owning manufacturing operations. . . . ***We have grown our operating profits by more than 50% over the last two years*** . . . . In fiscal year '04, Dell turned in another strong performance in our core business . . . . ***Clearly demonstrating that Dell's business model is advantaged in all environments across all regions and in all product categories.***

69. On 3/17/04, *The Financial Times* published an article concerning Dell's continued use of Intel as its sole source of its supply of microprocessors:

Dell puts its faith in the Intel it knows: MICROPROCESSORS: AMD's powerful new chip may not tempt away PC makers . . .

Michael Dell has built the world's second biggest computer manufacturer on simplicity. Dell sells direct to customers, bypassing the resellers that once dominated the hardware industry. He will not give up that simplicity easily, he says.

While rivals offer computers based on different microprocessors, Mr. Dell sticks firmly to Intel. Hewlett-Packard, in contrast, offers on its website computers similar in virtually every detail except their microprocessor. Customers can choose machines with Intel processors or similar models with chips from Advanced Micro Devices.

70. On 4/8/04, Dell held its annual Analyst Day in Austin, Texas for investors, stockholders, analysts and money managers. During the presentation, the following occurred:

[Schneider:] . . . ***[O]ur model, our advantage business model and our focused strategy and consistent executions allows us to continue to drive superior results. And . . . our strong focus on cutting costs and continuing to drive our profitable growth*** . . . [of] 26% EPS growth. . . . ***[W]e were . . . able to improve our operating margins. . . . [O]ur focus on operating expenses, took that down to a record low 9.7% of revenue which drove operating income dollars to new records, $3.5 billion. . . . This cost-saving element is something that we just can't focus on enough.*** . . . We first gave out targets a couple years ago, since that time we generated about $4 billion of cost savings. . . . You can look at our manufacturing cost side of it, the throughput through our factories. And the last three years, I mentioned that we've had over 20% unit growth annually. Yet, in these last three years, we've actually reduced the number of manufacturing facilities that we have. ***Also, actually reduced the number of people that are involved in the manufacturing process. . . . So, it's put us in a position to take our manufacturing costs down significantly. . . . Another category is warranty. . . . Very focused on improving [product] quality, which, over time, also reduces our warranty costs, our experience is much better. Our warranty costs on notebooks and desktops over the last three years have declined about 50%. [It's not] just the product quality, it's the wholesale service and support that . . . [w]e handle in the most efficient and effective way possible.***

71. On 4/8/04, Deutsche Bank issued a report on Dell's Analyst Day:

- ***Throughout the presentations, management highlighted the company's structurally advantaged business model and showed how it compared favorably with its peers from a profit, growth, and industry positioning perspective.***

* * *

Kevin Rollins, President and COO

Mr. Rollins reviewed the advantage of Dell's business model, citing Dell's efficiency and control in its manufacturing process (compared to competitors' outsourcing) . . . .

* * *

Michael Dell, Chairman and CEO

Mr. Dell highlighted the company from a growth perspective, ***indicating that Dell was ahead of its plan to reach $60B in revenue.***

72. On 4/8/04, Prudential Equity issued a report on Dell's Analyst Day:

DELL: COMPANY TRACKING AHEAD OF $60B REVENUE GOAL – RAISING FY05 AND FY06 ESTIMATES

* * *

- ***Most of the presentations were top level in nature, with mgmt touting the benefits of the direct model*** . . . .

- ***Most significant were mgmt's comments that the company is tracking ahead of its goal for $60B in revenue in FY07.***

73. In or about 4/04, Dell issued its F04 Annual Report. It contained the following financial results in financial statements audited and certified by PWC:

	OPERATING RESULTS (in millions, per-share data)		
Fiscal Year Ended	1/30/04	1/31/03	Change
Net revenue	$41,444	$35,404	17.1%
Gross margin	$7,552	$6,349	18.9%
Operating income	$3,544	$2,844	24.6%
Net income	$2,645	$2,122	24.6%
Income per common share Diluted	$1.01	$.80	26.3%

74. The F04 Dell Annual Report to Shareholders also contained a letter from M. Dell and Rollins:

To our Customers, Shareholders, Partners and Employees:

Customers made Dell's fiscal 2004 the most successful of the 20 years since our founding. . . .

Dell's full-year . . . revenue, operating profit and earnings per share were all company records. . . .

. . . Our revenue increased 17 percent, to $41.4 billion; total sales by the rest of the industry declined. ***Operating expenses accounted for just 9.7 percent of revenue, the lowest full-year rate in our history, and were 9.6 percent for the last three quarters***. Earnings per share were up 26 percent, to $1.01; competitors lost money in their computer-systems businesses.

In April 2002, in the midst of our industry's most trying period ever, we declared an ambitious objective to double Dell sales to more than $60 billion in about five years. Some observers believed the goal unattainable. However, two years later we are ahead of the pace toward the target.

*   *   *

We again demonstrated the fundamental advantages of our high-quality, low-cost business model . . . .

*   *   *

Our ability to understand and act on customer requirements is unmistakable: Dell earned more than 100 awards for product and service quality and reliability last year alone. . . . Technology Business Research ranked Dell No. 1 for overall service and support among hardware vendors, and first in customer satisfaction . . . .

*   *   *

We regularly measure our performance from the customer's perspective. As examples, we track how easy it is to contact Dell, the accuracy with which orders are fulfilled, if deliveries are on time, overall product quality, whether we correct an issue the first time, and if our customers are treated with courtesy and respect. Our vision is not just to provide the best customer experience in our industry, but to be counted among the best in any business.

75. On 4/12/04, Dell's F04 10-K was filed with the SEC, signed by Schneider, Miles, Carty, Davis and M. Dell. It reported Dell's F04 financial results in financial statements audited and certified by PWC. The 10-K stated:

Manufacturing

Dell manufactures most of the product its sells. Dell has six manufacturing locations worldwide to service its global customer base. ***Dell believes that its manufacturing processes . . . provide it a distinct competitive advantage***. . . . Dell's supply chain management decreases Dell's exposure to the risk of declining inventory values . . . .

Dell's manufacturing process consists of assembly, functional testing, and quality control. Testing and quality control processes are also applied to components, parts, and subassemblies obtained from suppliers. Quality control is maintained through the testing of components, parts, and subassemblies at various stages in the manufacturing process. Quality control also includes a burn-in period for completed units after assembly, on-going product reliability audits, failure tracking for early identification of production and component

problems, and information from Dell's customers obtained through services and support programs.

* * *

Dell's business strategy combines its direct customer model with a highly efficient manufacturing . . . organization . . . . This strategy enables Dell to provide customers with . . . ***high-quality, relevant technology; . . . superior service and support; and products and services that are easy to buy and use. . . . [T]he Dell model provides the company with advantages in all environments*** . . . .

The following table summarizes Dell's consolidated results of operations for each of the past three fiscal years:

	Fiscal Year Ended (dollars in millions)				
	1/30/04	**% Change**	**1/31/03**	**% Change**	**2/1/02**
Net revenue	$41,444	17%	$35,404	14%	$31,168
Gross margin	$7,552	19%	$6,349	15%	$5,507
% of net revenue	18.2%		17.9%		17.7%
Operating expenses	$4,008	14%	$3,505	(6%)	$3,718
% of net revenue	9.7%		9.9%		11.9%
Operating income	$3,544	25%	$2,844	59%	$1,789
% of net revenue	8.6%		8.0%		5.8%
Net income	$2,645	25%	$2,122	70%	$1,246
% of net revenue	6.4%		6.0%		4.0%

* * *

Gross Margin

Gross margin as a percentage of net revenue continued to improve in fiscal 2004 to 18.2%, compared to 17.9% in fiscal 2003 and 17.7% in fiscal 2002. The year-over-year improvement for fiscal 2004 and 2003 was primarily driven by Dell's continued cost savings initiatives. As part of management's focus on improving margins, Dell remains committed to reducing . . . manufacturing costs, warranty costs . . . and overhead or operating expenses. These cost savings initiatives also include providing certain customer technical support . . . from cost effective locations . . . . ***[T]he strength of Dell's direct-to-customer business model . . . makes Dell better positioned than its competitors to continue profitable market share growth in any business climate.***

Operating Expenses

* * *

> During fiscal 2004, Dell continued to execute on maximizing operating income dollars by producing record low operating expenses as a percentage of net revenue of 9.7%. ***The decrease was primarily a result of previously referred to cost reduction initiatives and Dell's continued focus and execution on cost control.***

76. Dell's F04 10-K also described Dell's accounting and disclosure controls and policies:

> **Critical Accounting Policies**
>
> Dell prepares its financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP"). . . . Dell believes its most critical accounting policies relate to revenue recognition [and] warranty accruals . . . .
>
> * * *
>
> *Warranty* – Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. . . . Warranty claims are relatively predictable based on historical experience of failure rates. ***Each quarter, Dell reevaluates its estimates to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.***

77. Dell's F04 Report on Form 10-K also contained the Sarbanes-Oxley certifications signed by M. Dell and Schneider detailed at ¶¶269-273.

78. The positive statements made by the Dell Defendants regarding Dell during 11/03-4/12/04 detailed above artificially inflated Dell's stock price. As Dell's stock traded at these artificially inflated levels and Dell's top executives' stock options were "***in the money***," Dell insiders unloaded more of their stock to profit from their "pump-and-dump" scheme. Between 11/24/03 and 4/7/04, they sold off nearly 20 million shares of their Dell stock for $663 million in illegal insider trading proceeds.

79. The statements made between 11/03 and 4/12/04, as pleaded in ¶¶61-77, included:

- Dell was reporting "***leading profitability***" and "***record***" financial results, including operating income, operating margins and "***quality earnings***" that "***continue to lead market***," producing "***compelling profit[s] for investors***" due to Dell's "***high quality, low cost business model.***"

- Dell's "***business model is advantaged in all environments, across all regions and in all product categories***" and was enabling Dell "***to consistently deliver exceptional financial and operating performance in all environments,***" "***maximize operating profitably***" and to "***continue to drive superior results***."

- Investors could ***"not focus . . . enough" on*** Dell's "***cost reduction activities***." Dell's "***cost control***" and its "***cost reduction initiatives***" were resulting in record low operating expenses that "***drove operating income to new records.***" These initiatives included providing "***customer support from cost effective locations,***" and assuring that "***re-routing corporate customer support calls to U.S. call centers***" was "***routine***" and "***no big deal,***" as Dell's customers were "***satisfied***" with Dell's support and service.

- Dell had "***reduced the number of people in its manufacturing process***" and had "***reduced warranty costs***" by 50% while its "***direct model***" and "***efficient manufacturing process***" with Dell's quality control procedures created "***high quality products***" and "***superior service and support,***" with products that were "***easy to buy***" – yielding Dell a "***distinct competitive advantage.***"

- Dell's direct model and high quality products generated "***100 awards for product and service quality and reliability in the past year,***" resulting in Dell being ranked "***No. 1 for overall service and support.***"

- Dell's top officers had reviewed Dell's internal financial and accounting and disclosure controls, which controls were effective to assure accurate preparation of Dell's SEC filings and that no undisclosed deficiencies in Dell's internal controls or fraud – material or otherwise – existed at Dell.

These statements impacted and were reflected in the market trading price of Dell's publicly traded securities. The statements set forth in ¶¶61-79 were false and misleading. The true undisclosed facts, which were known to or recklessly disregarded by each of the Dell Defendants, were:

(a) The Dell Direct business model was not operating successfully or creating the strong, often record, financial results and operating margins Dell was reporting; in fact, due to overly aggressive cost-cutting in Dell's customer support and service and manufacturing operations, Dell's business model was being afflicted with sky-rocketing customer dissatisfaction and complaints, as well as increasing product quality problems (especially with laptop batteries and capacitors). In truth, Dell's financial results were being falsified and

temporarily inflated by (i) large cost-cuts which would have to be reversed and remediated; (ii) improper accounting tricks, including under-accruing warranty costs and failing to take timely write-downs for defective products and product replacement; and (iii) its secret receipt of some $200 million per quarter in rebate/kickback payments from Intel in return for exclusively purchasing Intel microprocessors/chips.

(b) Dell was not manufacturing or selling the highest quality products, as Dell's aggressive cost-cutting in its manufacturing operations to boost its reported profits in the short term had badly weakened Dell's quality control procedures and standards for component parts, *i.e.*, batteries and finished goods, such that Dell was encountering an upsurge in customer complaints due to faulty products, including capacitor failures, motherboard failures and widespread laptop (lithium) battery defects.

(c) Dell did not have an unrivaled ability to create products or technologies that met or exceeded customer expectations, nor did it have world-class manufacturing excellence, producing high-quality products. In fact, as a result of the aggressive cost cuts in Dell's manufacturing operations, Dell's quality assurance procedures had become badly impaired, leading to a marked decline in product quality.

(d) Dell's cost-cutting program was resulting in a marked increase in the production of defective products which did not meet Dell's historic quality standards and a marked decline in Dell's historic levels of customer support and service and thus customer satisfaction, which Dell insiders knew would cost hundreds of millions, if not billions, of dollars to remedy, including the hiring of thousands of additional full-time employees to be trained to staff customer call centers and to improve Dell's quality assurance techniques and practices in its manufacturing operations.

(e) In order to cut operating costs, Dell had sharply curtailed its quality control processes by no longer testing component parts (specifically batteries, hard drives, optical drives or motherboards and laptop accessory parts, including power adaptors) received from suppliers. Rather, Dell was relying on post-assembly quick tests of completed units to discover defective component parts. In addition, it had also curtailed the post-assembly "burn-in" testing of units, which steps in combination were resulting in Dell shipping much larger numbers of computers with defects and performance problems, leading to increased quality problems and customer dissatisfaction.

(f) Dell was not providing superior customer service and support as, due to overly aggressive cost-cutting activities in Dell's customer support and service operations to boost its reported profits in the short term, including moving most of Dell's consumer and small business customer support and service call centers to India and the Philippines and replacing full-time, well-trained employees with part-time, ill-trained (but cheaper) employees, Dell's customer support and service operations were badly impaired, resulting in very long wait times and an inability to adequately respond to customer complaints and questions, generating an upsurge in customer anger and dissatisfaction with Dell, its products and its customer support and service, which Dell's internal metrics showed would hurt sales.

(g) Because of its shifting of much of its customer support and service operations, especially for its consumer and small business customers, to "call centers" in India and the Philippines and staffing its call centers with part-time, poorly trained employees, Dell was no longer providing a superior customer experience or generating high degrees of (or improving) customer satisfaction. Rather, Dell was encountering a widespread customer revolt with a massive upsurge in complaints regarding declining product quality and declining service

and support operations and a sharp decline in one of Dell's key internal metrics – the "likely to repurchase" number.

(h) The Dell Direct model also was not functioning effectively with respect to Dell's direct sales process because Dell had flooded the market with a huge number of confusing and contradictory promotional offers which its now ill-trained and inadequate sales force was unable to effectively process. This was leading to refusals to honor many "coupons" and "promotions," resulting in customer dissatisfaction and refusal to buy Dell products, which was showing up in an important internal Dell metric known as the "likely to repurchase" number, where Dell was seeing soaring negative sentiment which meant customers were displeased with the Dell sales process and thus Dell's sales growth would decline.

(i) While Dell publicly disseminated favorable surveys and reports purporting to show high degrees of Dell customer satisfaction with product quality and service and support, in fact, its own internal surveys, information and customer metrics (which it constantly monitored) showed a huge upsurge in customer dissatisfaction with and anger at Dell, including a measurable increase in negative responses to its most important metric, the so-called "likely to repurchase" number, which Dell knew indicated serious problems with ongoing sales growth.

(j) Dell's increasing product quality was not resulting in a decrease in Dell's warranty costs. In fact, Dell had quietly curtailed the length of its product warranty and sharply curtailed the breadth of its warranty coverage (it had eliminated the computer operating system from its warranty) and, in addition, had secretly adopted a new "fix-on-fail-only" policy, whereby it would provide in-home repair service or product replacement only when a computer (or component) completely failed, as opposed to merely malfunctioned, to cut costs. However, these severe restrictions in Dell's warranty and service to its customers – which were much different than Dell's historic "customer friendly" approach to warranty, service and product

quality issues – were causing an upsurge in customer dissatisfaction with and anger at Dell, which Dell insiders knew would inevitably result in declining sales growth and a massive increase in warranty and product repair costs to try to restore customers' satisfaction to acceptable levels.

(k) Dell's 3rdQ F04, 4thQ F04 and F04 financial results and statements were artificially inflated and falsified, as detailed in ¶¶233-273, due to a failure to properly accrue required amounts for warranty costs, failure to recognize material product defect/recall costs and failure to properly disclose the existence, nature and extent of the huge rebate payments Dell was receiving each quarter from Intel.

(l) Dell's Sarbanes-Oxley representations were false, as Dell's internal financial and accounting and disclosure controls were deficient and an undisclosed material fraud was ongoing at Dell – Dell's financial statements were being falsified, its disclosures in its SEC filings were false and misleading and an ongoing fraudulent violation of the securities laws was occurring.

(m) The true reason for Dell's reported superior operating margins was, in large part, the hundreds of millions of dollars of secret and likely illegal rebate/kickback payments Dell was receiving from Intel at the end of each quarter in return for purchasing 100% or virtually 100% of its microprocessor requirements from Intel.

(n) Due to customer demand for PCs with the advanced features and advantages of the new AMD microprocessor chips, Dell had decided it would have to begin to purchase AMD chips for its computers, which would mean the loss of those hundreds of millions of dollars of rebate/kickback payments from Intel, which would hurt Dell's operating profits and margins.

(o) The Dell Direct business model was not advantaged in all environments across all regions and in all product categories or able to cause Dell to report solid profits and rapid growth regardless of prevailing market conditions due to product quality and customer service and support issues due to the deficiencies and defects detailed above.

(p) Dell's purported improvements in reducing its operating expenses as a percentage of net revenues and the reported increases in its net and gross operating profit margins to record high levels were only being achieved at the cost of the serious product quality and customer support and service problems outlined above and which the Dell Defendants knew would require massive expenditures to fix, harming Dell's profitability going forward.

(q) Due to the material adverse facts and problems set forth above, Dell and the Dell Defendants knew that Dell could not and would not achieve the revenue, operating profit, operating profit margins, net income and EPS growth being forecast by them.

80. On 4/12/04, *The Wall Street Transcript* published an interview with Amy King and Mike Maher of Dell:

> Ms. King (Corporate Spokesperson): ***First of all, I'd like to comment that we just finished our fiscal year 2004, which was the most successful in our 20-year history. We've achieved record-breaking figures in some of the key areas of the company, including unit shipments, revenue, operating and net income and earnings per share. So we're coming from a very strong base here.***
>
> * * *
>
> ***[B]ut the direct business model is really the key advantage we have compared to our competitors in the industry*** . . . .
>
> * * *
>
> TWST: Give us the two or three best reasons why at this point the long-term investor should take a very good look at Dell.
>
> Mr. Maher: ***We have the most efficient business within our industry . . . and our business[es] are very, very healthy.***

81. On 5/13/04, Dell reported ***record*** 1stQ F05 (quarter ended 4/30/04) results in a release, headlined and stating:

> **Dell's Continued Strong Growth Outside U.S. Drives Company to Record Q1 Revenue; Dell Anticipates Second-Quarter Sales of $11.7 Billion, EPS 21 Percent Higher**
>
> ***Dell exceeded its own robust worldwide growth expectations while achieving record revenue during fiscal first-quarter 2005.***
>
> * * *
>
> The company has now met or exceeded guidance to investors for 13 straight quarters. ***Net earnings were $731 million, or 28 cents per share, 22 percent higher than a year ago. Dell's growth in . . . net income has surpassed 20 percent for seven consecutive quarters.***

		1st Quarter	
	FY '05	FY '04	Change
Revenue	$11,540	$9,532	21%
Operating Income	$966	$811	19%
Net Income	$731	$598	22%
EPS	$.28	$.23	22%

> "***In our industry, only Dell simultaneously creates great customer value, rapid growth and solid profitability***," said Kevin Rollins, the company's president and chief operating officer. . . .
>
> ***First-quarter operating income was $966 million, up 19 percent from a year ago despite higher-than-expected costs for random-access memory late in the quarter. Operating expenses as a percent of revenue were 9.6 percent, matching a company low and better than 9.8 percent last year.***

82. On 5/13/04, Dell held a conference call for analysts, money managers and institutional investors to discuss Dell's business and its 1stQ F05 results. During the call, the fact that Dell's gross margins had declined very slightly was discussed and the following occurred:

> [**Schneider – CFO, Sr. VP:**] . . . During Q1 . . . [w]e grew . . . EPS more than 20% year over year. . . . ***Our model consistently delivers growth in all products and regions which is accretive with shareholder value. . . . [W]e delivered 28 cents in earnings per share. An increase of 22% year over year.***
>
> * * *

> **[Rollins – President, COO:]** . . . Q1 was another impressive quarter for Dell. We again hit our financial targets representing the 13th consecutive quarter of delivering on our guidance to investors. . . . ***And in a recently completed Harris survey, 83% of customers were either satisfied or very satisfied with buying consumables direct from Dell, versus 66% being satisfied who bought through retail.***
>
> * * *
>
> **[Wagonfeld – First Albany Capital:]** . . . I was wondering on the margins, your gross margins were their lowest in seven quarters and the on margins, although they were flat sequentially in all regions they were down about 15 basis points sequentially in the Americas business. So I'm wondering if there is something about pricing maybe particularly in that market that also contributed to the gross margin impact aside from the component costs?
>
> * * *
>
> **[Schneider – CFO, Sr. VP:]** . . . ***10, 20 basis points up or down in margin or in op-ex or in operating income I think is something that you shouldn't worry about too much.***
>
> * * *
>
> **[Rollins – President, CEO:]** . . . ***In closing, [we] have clearly demonstrated that the Dell model works in all environments. . . . [The] Dell model continues to win with our growth progressing faster than planned*** . . . .

83. On 5/14/04, Needham issued a report on Dell discussing the recent conference call:

> Dell reported first quarter results inline with guidance – earnings per share of $0.28 on revenues of $11.54 billion. ***An after hours sell off of the stock reflects a misunderstanding of the Dell model.***
>
> * * *
>
> - ***The sharp sell off of Dell's share price in after hours reflects a misunderstanding of the Dell model.*** Investors appeared to expect an upside earnings surprise. We viewed such a surprise as virtually impossible since the company updated guidance at its analysts meeting just three weeks before the quarter ended. ***Investors also appeared to be concerned with a 0.2% sequential decline in the company's gross margin and a 0.1% decline in its operating margin. An unexpected spike in memory prices caused a portion of the gross margin decline in the month of April.***

- ***Dell has so much control over its model that it can fine tune its pricing to deliver exactly on its guidance.*** Against the background of the constraint imposed by its earnings guidance, the company can vary its pricing to accelerate or decelerate revenue growth. ***As a result, minor perturbations in its margin structure mean nothing within the context of its manipulation of the model to deliver on guidance.***

84. On 6/9/04, Dell filed its 1stQ F05 report on Form 10-Q with the SEC, signed by Davis. It contained the same financial results reported earlier and said:

> [O]perating expenses remained at a record low 9.6% of net revenue. During the first quarter, Dell continued its focus on maximizing operating profit with operating income and net income of $966 million and $731 million, respectively. . . . ***Dell's low-cost structure and efficient direct-to-customer model have enabled the company to consistently achieve year-over-year market share growth while maximizing operating profitability.***
>
> During the first quarter of fiscal 2005, ***Dell . . . utilized its direct-to-customer model to drive down costs through efficient supply chain management. Dell's model inherently provides cost advantages in manufacturing, operations, and its supply chain.***
>
> * * *
>
> **Results of Operations**
>
> The following table summarizes the results of Dell's operations for the three months ended April 30, 2004 and May 2, 2003:

	Three Months Ended			
	4/30/04		5/2/03	
	Dollars	% of Net Revenue	Dollars	% of Net Revenue
	(dollars in millions)			
Net revenue	$11,540	100%	$9,532	100%
Gross margin	$2,073	18.0%	$1,748	18.3%
Operating expenses	$1,107	9.6%	$937	9.8%
Operating income	$966	8.4%	$811	8.5%
Net income	$731	6.3%	$598	6.3%

> **Gross Margin**
>
> * * *
>
> As part of management's focus on striving to improve margins, Dell remains committed to reducing . . . ***manufacturing costs, warranty costs*** . . . and overhead or operating expenses. ***These cost savings initiatives also include***

> ***providing certain customer technical support . . . from cost effective locations*** . . . .
>
> **Operating Expenses**
>
> * * *
>
> ***During the first quarter, Dell*** maintained ***its record low operating expenses as a percentage of net revenue of 9.6%, compared to 9.8% in the same quarter last year. The decrease was primarily a result of previously referred to cost reduction initiatives.***

85. Dell's 1stQ F05 report on Form 10-Q also contained the Sarbanes-Oxley certifications signed by Schneider and M. Dell, detailed at ¶¶269-273.

86. On 7/1/04, JP Morgan issued a report on a meeting with Dell CFO Schneider, reporting what he had told JP Morgan:

- We met with Dell's CFO, James Schneider, yesterday. . . . ***[T]he tone of the meeting was positive. Growth expectations remain intact*** . . . .

* * *

- ***Dell remains optimistic about its growth prospects*** . . . .

87. On 8/12/04, Dell issued a release reporting its 2ndQ F05 results, including ***record*** EPS, and increasing operating profit margins, stating:

> **Dell Second Quarter Revenue Up 20 Percent, EPS 29 Percent Higher . . .**
>
> * * *
>
> Dell revenue was $11.7 billion, a company record and 20 percent higher than in the same quarter a year ago. . . .
>
> ***Earnings per share were 31 cents, 29 percent higher and also a Dell record. . . .***

	2nd Quarter			Year to Date		
	FY '05	FY '04	Change	FY '05	FY '04	Change
Revenue	$11,706	$9,778	20%	$23,246	$19,310	20%
Operating Income	$1,006	$840	20%	$1,972	$1,651	19%
Net Income	$799	$621	29%	$1,530	$1,219	26%
EPS	$.31	$.24	29%	$.59	$.47	26%

> "*We start with the marketplace advantage of a more efficient, more customer-focused way of doing business*," said Kevin Rollins, Dell's chief executive officer. "*And our global team is consistently disciplined in applying that business model.*"

* * *

> ***In the most-recent quarter, operating expenses were 9.6 percent of revenue, equaling a company low. Operating profit as a percent of revenue was 8.6 percent, up from 8.4 percent in the year's first quarter.***

88. On 8/12/04, Dell held a conference call for analysts, money managers and institutional investors to discuss Dell's business and its 2ndQ F05 results. During the call, the following occurred:

> **[Schneider – CFO, SVP:]** . . . In Q2 we posted record revenue with double-digit growth across all products, segments, and regions, ***coupled with enhanced overall profitability. Quarterly operating income was in excess of $1 billion, a company record. We delivered improved margin sequentially . . . . Earnings per share increased 29%. . . . [W]e . . . overachieved on EPS hitting 31 cents. . . . We improved our operating margin by over 20 basis points sequentially to 8.6%*** . . . .

* * *

> **[Rollins – President, CEO:]** . . . In Q2 Dell again demonstrated consistency of execution as we hit our guidance to investors for the 14th consecutive quarter. ***Our strategy of driving profitable share growth is working exceptionally well and we continue to outperform the market. We're ahead of our $60 billion target . . . This is unprecedented organic growth for a company of our size in any industry and we did it while driving our margins higher. We achieved these results by leveraging the core advantages of our model*** . . . . Each quarter we identify businesses with the most attractive revenue and profit profiles, ***then the structural advantages of the Dell model, combined with disciplined execution allow us to address these opportunities. . . . And our cost advantages allow us to drive profitable growth by offering superior value . . . . It's clear that our ability to generate superior returns remains unmatched.***

* * *

> **[Schneider – CFO, SVP:]** . . . ***[O]ur model continues to deliver exceptional financial and operating results in any environment.***

89. On 8/12/04, Raymond James issued a report on Dell based on the recent conference call:

DELL: Raising FY06 EPS Estimates Due to Better Margins

- Dell's 2Q results ending July were in-line with revised expectations. During the period . . . operating income rose 20% to $1.01 billion; and EPS of $0.31 compared with $0.24 last year. . . .

- . . . ***Gross margin improve sequentially to 18.2% from 18.0% and returned to more normal levels*** . . . .

* * *

- . . . ***We are raising our FY06 Estimate to $1.54 from $1.52 to reflect a faster than expected pace of improvement in operating margin and continued strength in the core US business.***

90. On 8/12/04, Thomas Weisel Partners issued a report on Dell based on the recent conference call:

- ***Execution separates Dell from the pack***. . . . [G]ross margin of 18.2%, operating margin of 9.0%, and EPS of $0.31 were all exactly in line with our and Street estimates.

* * *

- ***Gross margin improvement due mainly to decline in component prices – leading to EPS upside. Gross margin of 18.2% came in line with our expectation.***

91. On 8/13/04, Bear Stearns issued a report on Dell based on the recent conference call.

****** Why is Dell doing well? Primarily due to its advantaged, direct model which keeps it close to customers [and] provides lower costs*** . . . .

92. On 8/17/04, CSFB issued a report "initiating coverage" on Dell. The report stated:

Initiate Coverage with an Outperform Rating

* * *

Outlook. We believe Dell owns a sustainable competitive advantage due to its direct model, and we expect the company to deliver superior growth and attractive financial returns in the foreseeable future.

* * *

> ***By selling PCs directly, Dell establishes a strong rapport with both its consumer and corporate customers, listening to suggestions and concerns in order to gain a better understanding of buying behavior. . . . By knowing its customers, Dell is able to react quickly to changes in customer preferences and can avoid producing products for which demand does not meet supply. In short, having access to better information than its competitors gives the company a significant competitive advantage.***

93. On 9/7/04, Dell filed its 2ndQ F05 Report on Form 10-Q with the SEC, signed by Davis. It contained the same financial results earlier reported and stated:

> **Second Quarter Overview**
>
> . . . During the second quarter of fiscal 2005, Dell's year-over-year performance continued to outpace the industry. . . . [O]perating expenses remained at a record low 9.6% of net revenue. During the second quarter, Dell achieved quarterly operating income that exceeded $1.0 billion for the first time . . . .
>
> Dell's low-cost structure and efficient direct-to-customer model have enabled the company to consistently . . . maximiz[e] operating profitability. . . . ***Dell's model inherently provides cost advantages in manufacturing, operations, and its supply chain.***
>
> * * *
>
> **Results of Operations**
>
> The following table summarizes the results of Dell's operations for the three and six months ended July 30, 2004 and August 1, 2003:

(dollars in millions)

	Three Months Ended				Six Months Ended			
	7/30/04		8/1/03		7/30/04		8/1/03	
	Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue
Net revenue	$11,706	100%	$9,778	100%	$23,246	100%	$19,310	100%
Gross margin	$2,134	18.2%	$1,778	18.2%	$4,207	18.1%	$3,526	18.3%
Operating expenses	$1,128	9.6%	$938	9.6%	$2,235	9.6%	$1,875	9.7%
Operating income	$1,006	8.6%	$840	8.6%	$1,972	8.5%	$1,651	8.6%
Net income	$799	6.8%	$621	6.3%	$1,530	6.6%	$1,219	6.3%

* * *

Gross Margin

Gross margin as a percentage of net revenue remained constant at 18.2% during the second quarter of fiscal 2005, as compared to the second quarter of fiscal 2004. . . . Management believes that the strength of Dell's direct-to-customer business model . . . makes Dell better positioned than its competitors to gain market share in any business climate.

As part of management's focus on striving to improve margins, Dell remains committed to reducing . . . manufacturing costs, ***warranty costs*** . . . and operating expenses. These cost savings initiatives also include ***providing certain customer technical support . . . functions from cost-effective locations*** . . . .

94. Dell's 2ndQ F05 report on Form 10-Q also contained the Sarbanes-Oxley certifications signed by Schneider and Rollins, detailed at ¶¶269-273.

95. On 9/8/04, Rollins appeared at the Smith Barney Technology Conference. Citigroup reported what Rollins said:

Dell President and CEO Kevin Rollins commented that Dell has seen nothing that would prompt it to change the revenue or earnings guidance provided on its most recent earnings call.

Rollins also expressed optimism regarding the rate of decline in the price of key components, which has a material impact on Dell's relative cost advantage.

96. On 9/15/04, Dell held a conference call for analysts, money managers and institutional investors to discuss Dell's U.S. consumer business.

[**Hamlin – SVP, US Consumer Business**:] Our U.S. consumer business has achieved tremendous success . . . . Our growth has been driven by the strength of the direct model, superior customer value, and increasing brand performance and loyalty among our customers. This success is evidenced by our strong operating results . . . . Dell offers a compelling value for customers by providing high-quality technology at an affordable price and standing behind the product with leading customer service and support. As a result of this focus consumers are indicating an increasing level of broad preference for Dell. . . . Dell's focus on disciplined profitable growth ***will continue to yield superior results in the consumer market, regardless of the operating environment.***

* * *

[**George – VP and General Manager, US Consumer Business**:] A key component of our success and our ongoing strategy has been our commitment to the highest quality of service and support. Dell has consistently rated among the

> best in the industry at providing service and support to customers. . . . ***We believe that the direct model is the best approach for providing the highest quality service and support.***

97. The positive statements made by defendants regarding Dell during 4/04-9/04 continued to artificially inflate Dell's stock. As Dell's stock traded at these artificially inflated levels, Dell's top executives' Dell stock options remained "***in the money.***" Dell insiders unloaded more of their stock to profit from their "pump-and-dump" scheme. Between 5/18/04-10/5/04, they sold off 23.4 million shares of their Dell stock for $823 million in illegal insider trading proceeds.

98. On 11/11/04, Dell reported its 3rdQ F05 results – its "***best reporting period in its history***" – via a release stating:

> ***Record global product shipments, revenue, operating and net income, earnings per share and cash from operations made Dell's fiscal third-quarter 2005 the best reporting period in its history.***
>
> * * *
>
> Earnings per share were 33 cents, up 27 percent, for the quarter ended Oct. 29:

	3rd Quarter (in millions)			Year to Date		
	FY '05	FY '04	Change	FY '05	FY '04	Change
Revenue	$12,502	$10,622	18%	$35,748	$29,932	19%
Operating Income	$1,095	$912	20%	$3,067	$2,563	20%
Net Income	$846	$677	25%	$2,376	$1,896	25%
EPS	$.33	$.26	27%	$.92	$.72	28%

> "***The record quarter is testament to the company's superb team executing a better business model,***" said Kevin Rollins, Dell chief executive officer. "***An improving component-cost environment further favors Dell, with customers and shareholders the primary beneficiaries.***"
>
> * * *
>
> ***In the third quarter, Dell's operating profit improved to 8.8 percent of revenue, the company's highest rate in four years.***

99. On 11/11/04, Dell held a conference call for analysts, money mangers and institutional investors to discuss its 3rdQ F05 results. During the call, the following occurred:

> **[Schneider – SVP & CFO**:] We're extremely pleased with our overall performance and the team's execution during third quarter. We leveraged the unique strengths of our model to deliver enhanced profitability and record performance across our business. Let me list a few. . . . [O]perating and net income [and] EPS . . . were all company records. . . . Turning to our financials, we had industry-leading performances across the board. ***We delivered EPS of 33 cents, an increase of 27 percent year-over-year*** . . . . Our operating margins grew to 8.8 percent, up 20 basis points sequentially and 40 basis points since the first quarter.
>
> * * *
>
> **[Rollins – CEO:]** ***For the 15th consecutive quarter we met or beat our guidance to investors. . . . [W]e're now almost a full year ahead of our $60 billion objective.***
>
> * * *
>
> **[Conigliaro – Goldman Sachs – Analyst:]** You indicated that you are ahead of your goal to achieve the $60 billion in revenue that you targeted. In fact, you were quoted in a Bloomberg article saying that you actually are 12 months ahead of schedule. I guess I'd like a little more clarification on that.
>
> * * *
>
> **[Rollins – CEO:]** Our trajectories in growth revenue has been in the 18 to 20 percent range on and off throughout this year quarter-to-quarter. We don't see any reason to believe that the trajectory of our growth rate is going to slow . . . . So given that, our confidence in hitting some pretty good numbers is increasing. . . . [W]e're trying to let you know that we're ahead of plan. . . . [W]e see no reason to change or that will have to change the growth trajectory we've been experiencing.

100. On 11/11/04, Bear Stearns issued a report on Dell based on the recent conference call:

> **Dell Inc. – Outperform In-Line Results And Outlook; Strong Growth Overseas Highlights Future Opportunity; Raising FY06 Estimates; Reiterate Outperform**
>
> * * *
>
> *** Dell reported another solid quarter with its results and guidance as expected, showing balanced growth and particular strength overseas where we see further

headroom for growth and margin upside . . . . ***We are raising our estimates for FY06.***

* * *

- **Gross Margin Above Expectations.** ***Gross margin of 18.5% was above our forecast of 18.2%, up almost 30 basis points sequentially and from the year-ago period . . . .***

* * *

Raising FY06 Estimates; Initiating FY07 Estimates. For FY06, we are raising our EPS estimate from $1.55 to $1.58 . . . . CEO Kevin Rollins noted that Dell is confident about maintaining the 18%-20% annual revenue growth it has seen for the past year. For FY07, we are initiating a FY07 EPS estimates of $1.85 . . . .

101. On 11/12/04, *Bloomberg* reported:

Rollins's remarks cheered investors . . . and Rollins said for the second time in a week that Dell will meet the $60 billion sales goal a year earlier than planned.

* * *

"***Our confidence in hitting some pretty good numbers is increasing . . . . We're trying to let you know we're ahead of plan. The growth rates appear to be achievable.***"

102. On 11/12/04, *The Los Angeles Times* reported:

Record sales of computing products and systems . . . propelled Dell Inc. to a 25% increase in profit in its best quarter ever.

* * *

Dell shares, which gained 40 cents to $37.25 in regular Nasdaq trading, rose to $38.02 in extended trading after the quarterly results were announced.

"***They're just hitting on all cylinders,***" said James Ragan, an analyst with Crowell, Weedon & Co. in Los Angeles. "***Business in strong, their business model is very favorable . . . .***"

* * *

"***It was very upbeat. It was record everything,***" said Mark Stahlman, an analyst in New York with San Diego-based investment bank Caris & Co. . . .

* * *

"*[W]e think the 60 billion is within reach about a year early*," Rollins told analysts . . . .

103. On 11/12/04, UBS issued a report on Dell based on the recent conference call:

In Line 3Q & Outlook, FY06 View Surprises

- **Reports in Line With Expectations**

. . . Gross margins exceeded our estimates by 20 bps at 18.5% due to lower component pricing.

- **$60B In 2006 On 18%-20% Growth?**

While Dell reported as we expected in terms of performance, commentary & an in-line outlook, ***we were surprised to hear that it expects to grow 18-20% in FY06 – which would be impressive***.

* * *

4. Component Price Boost Margins. Dell reported gross margins of 18.5% in the quarter, beating our 18.2% estimate.

104. On 11/12/04, Piper Jaffrey issued a report on Dell based on the recent conference call:

- Dell reported its 3FQ05 earnings results yesterday . . . . ***Robust growth across every segment and a declining component cost environment enabled the Company to meet both our and consensus estimates of $12.5B and $0.33. Gross margins of 18.5% beat our estimates*** . . . .
- ***Our takeaway from the earnings report and conference call is that the Dell revenue and earnings growth trajectory has not slowed and shows no signs of slowing in the near future. The Company indicated that it was executing ahead of plan to achieve $60B in annual revenues . . . .***
- ***The Dell model continues to outperform*** . . . .

105. On 11/12/04, CIBC Issued a report on Dell based on the recent conference call:

Revisiting our Thesis: Dell Gains Are Defying Gravity, Should Help Sustain Premium in Shares

Controversy regarding the sustainability of Dell's margins and growth rates, underlying our prior Sector Performer rating, should take a back seat following bullish guidance on strength of end-markets, and on Dell's ability to maintain its market-share momentum.

* * *

Overall, with gross margins on an upswing, and next-round scalability of operating margins (after 40 bps gains this year) probably no more than nine months away, evidence suggests that tailwind of declining component prices is in fact allowing Dell to execute on its lean inventory and dynamic sourcing models.

106. On 12/1/04, Dell filed its 3rdQ F05 Report on Form 10-Q, signed by Davis. It reported:

Third Quarter Overview

. . . Dell maximized its operating profitability with operating income increasing 20% year-over-year to a record $1.1 billion. Dell's gross profit margin of 18.5% and operating margin of 8.8% reached the highest levels in four years. . . .

Dell's low-cost structure and efficient direct-to-customer model have enabled the company to consistently achieve year-over-year market share growth while maximizing operating profitability. . . . Dell's model inherently provides cost advantages in manufacturing, operations, and its supply chain.

* * *

Results of Operations

The following table summarizes the results of Dell's operations for the three and nine months ended October 29, 2004 and October 31, 2003:

	Three Months Ended (dollars in millions)				Six Months Ended			
	10/29/04		10/31/03		10/29/04		10/31/03	
	Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue
Net revenue	$12,502	100%	$10,622	100%	$35,748	100%	$29,932	100%
Gross margin	$2,313	18.5%	$1,935	18.2%	$6,520	18.2%	$5,461	18.2%
Operating expenses	$1,218	9.7%	$1,023	9.6%	$3,453	9.7%	$2,898	9.7%
Operating income	$1,095	8.8%	$912	8.6%	$3,067	8.6%	$2,563	8.6%
Net income	$846	6.8%	$677	6.4%	$2,376	6.6%	$1,896	6.3%

* * *

Gross Margin

> ***Gross margin as a percentage of net revenue increased to 18.5% during the third quarter of fiscal 2005, compared to 18.2% during the third quarter of fiscal 2004*. . . .**
>
> As part of management's focus on striving to improve margins, Dell remains committed to reducing . . . manufacturing costs, warranty costs . . . and operating expenses. ***These cost savings initiatives include providing certain customer technical support . . . functions from cost-effective locations*** . . . .

	Three Months Ended				Nine Months Ended			
	(dollars in millions)							
	10/29/04		10/31/03		10/29/04		10/31/03	
	Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue
Selling, general and administrative	$1,101	8.8%	$905	8.5%	$3,100	8.7%	$2,553	8.5%
Research, development and engineering	$117	0.9%	$118	1.1%	$353	1.0%	$345	1.2%
Total operating expenses	$1,218	9.7%	$1,023	9.6%	$3,453	9.7%	$2,898	9.7%

107. Dell's 3rdQ F05 report on Form 10-Q also contained the Sarbanes-Oxley certifications signed by Schneider and Rollins, detailed at ¶¶269-273.

108. On 12/9/04, S.G. Cowen & Co. issued a report on Dell based on a meeting with Rollins, repeating what Rollins had said:

> **Bullish CEO Meeting: We See Poised for 20%+/Annum EPS Growth Next Two Years**
>
> **Conclusion**: We hosted Dell CEO Kevin Rollins at a Boston investor lunch meeting yesterday. ***It seems apparent that the Dell execution engine is running essentially on all cylinders. Current demand is strong . . . . We are raising estimates*** . . . .

109. The positive statements made by defendants regarding Dell during 11/04-12/04 artificially inflated Dell's stock, which reached its Class Period high of $42.57 on 12/9/04. As Dell's stock traded at these artificially inflated levels, Dell's top executives' stock options were "*in the money*." Dell insiders unloaded more of their stock to profit from their "pump-and-dump" scheme. Between 11/16/04 and 12/20/04, they sold off 13 million shares of their Dell stock for $528 million in illegal insider trading proceeds.

110. On 1/7/05, Bear Stearns issued a report based on conversations with members of Dell's management at corporate headquarters, repeating what they said:

> *** After meeting with Dell management . . . our takeaway was that Dell continues to be a solid growth story . . . driving strong revenue growth and with potential for margin expansion over time. ***CEO Kevin Rollins noted Dell's confidence in 17%-20% revenue growth range in the foreseeable future.***

111. On 2/10/05, Dell issued a release reporting Dell's ***record*** 4thQ F05 and F05 results, via a release headlined and stating:

> **Record Revenue, Shipments, Operating Income and Cash Flow Highlighted Dell's Fiscal Fourth Quarter; Revenue up 17 Percent, Earnings Exceed Company Guidance**
>
> ***Strong growth throughout Dell's diversified range of products and services in the fiscal fourth-quarter 2005 led to the company's best ever operating period. The company achieved quarterly records for . . . operating income . . . .***
>
> *   *   *
>
> Pro-forma fourth-quarter net earnings were 37 cents per share, 28 percent higher than last year. That exceeded Dell's guidance . . . .
>
> Dell's fourth-quarter reported earnings were $667 million, or 26 cents per share, which included a tax charge of 11 cents per share. The charge was taken in anticipation of repatriating foreign earnings at a one-time favorable tax rate under the U.S. American Jobs Creation Act (AJCA).
>
> *   *   *
>
> Full-year pro-forma earnings were $1.29 per share, up 28 percent; fiscal-2005 reported earnings, including the AJCA-related charge, were $1.18 per share. Full-year revenue was $49.2 billion, up 19 percent.
>
> "***The quarter represents continued record performance*** by our team around the world," said Kevin Rollins, Dell's chief executive officer. . . .
>
> *   *   *
>
> In the fourth quarter, Dell's ***operating margins improved to 8.8 percent, up from 8.5 percent a year ago.***

112. On 2/10/05, Dell held a conference call for analysts, money managers and institutional investors to discuss its F05 results. During the call, the following occurred:

[Schneider – CFO, SVP:] . . . Our fourth quarter results capped a year in which Dell delivered ***strong performance and records across the board, including unit shipments, revenues, operating income, EPS, and cash flow from operations.*** Looking at our results for the full year . . . [o]ur operating income was up 20 percent to $4.3 billion resulting in an operating margin over 8.6 percent. The highest level in 4 years. We generated pro forma EPS of $1.29, up 28 percent. . . . [F]or the fourth quarter, we delivered EPS of $0.37, an increase of 28 percent year-over-year . . . .

* * *

[Rollins – President, CEO:] . . . Our fourth quarter closed out another great year of strong growth for Dell. We have now met or beat our guidance to investors for 16 consecutive quarters, demonstrating a consistency of execution that is unmatched in our industry. Our strategy of profitable growth, delivering earnings per share[,] . . . continues to deliver superior value to our customers and our shareholders. . . . ***The Dell model, which is uniquely able to offer the highest quality products and services while maintaining the most efficient cost structure has consistently benefited from this consolidation.***

113. On 2/10/05, Bear Stearns issued a report on Dell based on the recent conference call. It stated:

Dell Inc. – Outperform; Solid Results And Outlook; Poised To Benefit From Competitive Dislocation; Raising Estimates; Reiterate Outperform Rating

Key Points

. . . [I]t was a typical Dell quarter (16th in a row in line or above expectations), highlighting Dell's above-average, profitable growth . . . .

. . . ***[M]anagement was confident that its growth trajectory was intact*** . . . .

* * *

*** We're ***raising*** our estimates for FY06 from $1.58 to $1.60 in EPS (vs. $1.28 in FY05) . . . and for FY07 from $1.85 to $1.90 in EPS . . . .

* * *

- **Gross Margin Above Expectations**. ***Gross margin of 18.5% was above our forecast of 18.4%, up 5 basis points sequentially and 20 basis points from the year-ago period, owing to . . . more favorable component cost declines*** . . . .

114. On 2/11/05, *The Wall Street Journal* reported ***"Dell Retakes Lead in Strong Quarter . . . Operating Profit Rises; H-P Trails in Global Sales"***:

> Computer maker Dell Inc. ***said its fiscal fourth-quarter . . . operating earnings jumped 21%.***
>
> ***Dell's robust performance, slightly above Wall Street expectations, underscored the dependable success of Dell's low-cost, direct-sales strategy.***
>
> * * *
>
> Kevin B. Rollins, Dell's chief executive, called the quarter "***the best operating period in Dell's history.***"
>
> * * *
>
> Dell's relentless efforts to cut costs, using Internet sales and build-to-order inventory management, has allowed it to compete aggressively on price while continuing to increase its profits. ***Dell has encouraged investors with ebullient forecasts in recent quarters, building expectations that its robust growth will continue unabated.***

115. On 2/24/05, *The Wall Street Journal* reported on Dell's intent to retain Intel as its sole source of supply of chips:

> **Dell Is Likely to Keep Intel Pact**
>
> Dell Inc. Chief Executive Kevin Rollins said the personal-computer ***giant is unlikely to add Advanced Micro Devices Inc. as a chip supplier*** . . . .
>
> ***Dell has long used only Intel chips.*** Mr. Rollins, speaking at an investor conference in Phoenix hosted by Goldman Sachs, said Dell considered changing that practice as AMD products became more competitive and Intel suffered a series of technical slip-ups last year. ***But Intel responded, Mr. Rollins said, and has improved its "roadmap" of new products, to the point that Dell probably won't change its Intel-only purchasing policy.***

116. The statements made between 4/04-2/05 as pleaded above included:

- Dell reported "***record breaking***," *i.e.*, its "***best ever,***" financial results. Its businesses were "***very, very healthy***," its growth "***was progressing faster than planned***," and was "***unprecedented organic growth for a company of our size***," achieved due to the "***core advantages of [our] model.***" Dell's "***ability to generate superior returns remains unmatched,***" all due to a model that "***delivers exceptional financial and operating results in any environment***," leaving Dell "***ahead of [its] $60 billion target***" – "*well ahead of plan*" – all a "***testament to our better business model.***"

- Dell's model "***works in all environments***," "***continues to win***," "***maximizes operating profitability***" and was the "***best approach for producing highest quality service and support***," "***delivering growth which is accretive to shareholder value***."

- Dell was "***providing customer support from cost effective locations***," yielding 83% "***customer satisfied***" or "***very satisfied***" responses, compared to just 66% of customers dealing with retail outlets, and Dell's model was "***uniquely able to deliver the highest quality products***."

- Dell's top officers had reviewed Dell's internal financial and accounting and disclosure controls. Those controls were effective to assure accurate preparation of Dell's SEC filings and that no undisclosed deficiencies in Dell's internal controls or fraud – material or otherwise – existed at Dell.

These statements impacted and were reflected in the market trading price of Dell stock. The statements set forth in ¶¶80-116 were false and misleading. The true undisclosed facts, which were known to or recklessly disregarded by each of the Dell Defendants, were:

(a) The Dell Direct business model was not operating successfully or creating the strong, often record, financial results and operating margins Dell was reporting; in fact, due to overly aggressive cost-cutting in Dell's customer support and service and manufacturing operations, Dell's business model was being afflicted with sky-rocketing customer dissatisfaction and complaints, as well as increasing product quality problems (especially with laptop batteries and capacitors). In truth, Dell's financial results were being falsified and temporarily inflated by (i) large cost-cuts which would have to be reversed and remediated; (ii) improper accounting tricks, including under-accruing warranty costs and failing to take timely write-downs for defective products and product replacement; and (iii) its secret receipt of some $200 million per quarter in rebate/kickback payments from Intel in return for exclusively purchasing Intel microprocessors/chips.

(b) Dell was not manufacturing or selling the highest quality products, as Dell's aggressive cost-cutting in its manufacturing operations to boost its reported profits in the short term had badly weakened Dell's quality control procedures and standards for component

parts, *i.e.*, batteries and finished goods, such that Dell was encountering an upsurge in customer complaints due to faulty products, including capacitor failures, motherboard failures and widespread laptop (lithium) battery defects.

(c) As a result of the aggressive cost cuts in Dell's manufacturing operations, Dell's quality assurance procedures had become badly impaired, leading to a marked decline in product quality.

(d) Dell's cost-cutting program was resulting in a marked increase in the production of defective products which did not meet Dell's historic quality standards and a marked decline in Dell's historic levels of customer support and service and thus customer satisfaction, which Dell insiders knew would cost hundreds of millions, if not billions, of dollars to remedy, including the hiring of thousands of additional full-time employees to be trained to staff customer call centers and to improve Dell's quality assurance techniques and practices in its manufacturing operations.

(e) In order to cut operating costs, Dell had sharply curtailed its quality control processes by no longer testing component parts (specifically batteries, hard drives, optical drives or motherboards and laptop accessory parts, including power adaptors) received from suppliers. Rather, Dell was relying on post-assembly quick tests of completed units to discover defective component parts. In addition, it had also curtailed the post-assembly "burn-in" testing of units, which steps in combination were resulting in Dell shipping much larger numbers of computers with defects and performance problems, leading to increased quality problems and customer dissatisfaction.

(f) Dell was not providing superior customer service and support as, due to overly aggressive cost-cutting activities in Dell's customer support and service operations to boost its reported profits in the short term, including moving most of Dell's consumer and small

business customer support and service call centers to India and the Philippines and replacing full-time, well-trained employees with part-time, ill-trained (but cheaper) employees, Dell's customer support and service operations were badly impaired, resulting in very long wait times and an inability to adequately respond to customer complaints and questions, generating an upsurge in customer anger and dissatisfaction with Dell, its products and its customer support and service, which Dell's internal metrics showed would hurt sales.

(g) Because of its shifting of much of its customer support and service operations, especially for its consumer and small business customers, to "call centers" in India and the Philippines and staffing its call centers with part-time, poorly trained employees, Dell was no longer providing a superior customer experience or generating high degrees of (or improving) customer satisfaction. Rather, Dell was encountering a widespread customer revolt with a massive upsurge in complaints regarding declining product quality and declining service and support operations and a sharp decline in one of Dell's key internal metrics – the "likely to repurchase" number.

(h) While Dell publicly disseminated favorable surveys and reports purporting to show a high degree of Dell customer satisfaction with product quality and service and support, in fact, its own internal surveys, information and customer metrics (which it constantly monitored) showed a huge upsurge in customer dissatisfaction with and anger at Dell, including a measurable increase in negative responses to its most important metric, the so-called "likely to repurchase" number, which Dell knew indicated serious problems with ongoing sales growth.

(i) Dell had quietly curtailed the length of its product warranty and sharply curtailed the breadth of its warranty coverage (it had eliminated the computer operating system from its warranty) and, in addition, had secretly adopted a new "fix-on-fail-only" policy, whereby it would provide in-home repair service or product replacement only when a computer

(or component) completely failed, as opposed to merely malfunctioned, to cut costs. However, these severe restrictions in Dell's warranty and service to its customers – which was much different than Dell's historic "customer friendly" approach to warranty, service and product quality issues – were causing an upsurge in customer dissatisfaction with and anger at Dell, which Dell insiders knew would inevitably result in declining sales growth and a massive increase in warranty and product repair costs to try to restore customers' satisfaction to acceptable levels.

(j) Dell's 1stQ, 2ndQ, 3rdQ and 4thQ F05 and F05 financial results and statements were artificially inflated and falsified, as detailed in ¶¶233-273, due to a failure to properly accrue required amounts for warranty costs, failure to recognize material product defect/recall costs and failure to properly disclose the existence, nature and extent of the huge rebate payments Dell was receiving each quarter from Intel.

(k) Dell's Sarbanes-Oxley representations were false, as Dell's internal financial and accounting and disclosure controls were deficient and an undisclosed material fraud was ongoing at Dell – Dell's financial statements were being falsified, its disclosures in its SEC filings were false and misleading and an ongoing fraudulent violation of the securities laws was occurring.

(l) Dell's statements regarding its ability to quickly benefit financially from declines in component part prices was false and misleading. The true reason for Dell's reported superior operating margins was, in large part, the hundreds of millions of dollars of secret and likely illegal rebate/kickback payments Dell was receiving from Intel at the end of each quarter in return for purchasing 100% or virtually 100% of its microprocessor requirements from Intel.

(m) Due to customer demand for PCs with the advanced features and advantages of the new AMD microprocessor chips, Dell had decided it would have to begin to